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The Reconstruction of a War-Torn Economy: The Next Steps in the Democratic Republic of Congo

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THE RECONSTRUCTION OF A WAR-TORN ECONOMY: THE NEXT STEPS IN THE DEMOCRATIC REPUBLIC OF CONGO

Technical Paper

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1. INTRODUCTION

> *"If the Alliance cannot deliver on the economic front, its political gains will vanish very quickly indeed."*
>
> Wrong (1997) citing a banker in DRCongo

The Democratic Republic of the Congo (DRCongo), formerly Zaire, has emerged from a period of civil war. One of the major challenges for the new regime is how to re-ignite economic growth as quickly as possible.

In a companion paper, *The Reconstruction of War-Torn Economies* (Haughton 1997) we drew on the experience, since 1970, of 20 war-torn economies in order to answer a fundamental question: what policies are needed, and in what order, to move a war-torn economy from devastation to a path of sustainable economic recovery? A suggested sequencing of suitable policies was set out in Table 8 of that paper, and is used in section 4 below in a slightly altered format.

In this paper we draw on that framework in order to suggest some guidelines for the economic reconstruction of DRCongo.

DRCongo barely qualifies as a "war-torn" economy. In the companion paper we defined a country as war-torn if at least 20,000 people had died as a consequence of war or civil disturbances, and/or at least 100,000 people had fled the country, and/or at least 1,000,000 were internally displaced. Since civil strife escalated in 1990, perhaps 10,000 Congolese have been killed, 40,000 have fled and 400,000 were internally displaced. These numbers do not include the refugees from neighboring countries. After April 1994 at least 1 million Rwandans (mostly Hutus) fled into Zaire after the genocidal killings and civil war there. While most of these have now returned, an estimated 173,000 are still unaccounted for and many are believed to have been killed by Alliance forces in Zaire. There are still an estimated 300,000 refugees in DRCongo who have fled the civil strife in Burundi, Angola, Sudan and Uganda.

It is nonetheless true that DRCongo shares many of the traits of the prototypical war-torn economy. This is what justifies the effort to apply the lessons from other war-torn economies to the current situation in DRCongo.

The discussion is organized as follows. In the next section we summarize the main socio-political events since independence. Serious political turmoil began in 1990, and ultimately led to "the implosion of a ramshackle government" (Clark), but raises serious questions about the political strength of the new regime. Section 3 summarizes the main features of a war-torn economy, and asks whether these apply to the case of the DRCongo. It paints a picture of an economy in slow decline since the early 1970s, but which rapidly collapsed from 1990 onwards. Section 4 takes our framework suggesting the appropriate sequence of reforms for the economic reconstruction of a war-torn economy, and applies it to the Congolese case, with appropriate modifications. A series of appendices provide more detailed information, including a map, which will be of particular interest to readers with only a passing acquaintance with the country.

2. SOCIO-POLITICAL EVENTS

A condensed chronology of the major socio-political events is shown in Table 1. The turbulent post-independence history of the country helps explain why economic growth was not sustained, why the economic collapse of the 1990s occurred, and why the it was so easy to overthrow the Mobutu regime in 1997.

Immediately after independence from Belgium in 1960, the Congo experienced a period of serious turmoil. The attempted succession of Katanga (now Shaba province) captured the world's attention, and prompted a UN-led military effort to keep the country from falling apart. General Mobutu, then head of the army, seized power in November 1965 in a bloodless coup, with US backing. This ushered in a period of stability and, for several years, economic growth of 4-5% annually. Mobutu, the sole candidate, was elected President for 7-year terms in 1970, 1977 and 1984, and continued to rule after his mandate expired at the end of 1991.

In November 1971 President Mobutu announced, in the *Manifeste de la Nsélé*, a program of *authenticité*. This included changing the name of the country to Zaire, an emphasis on large industrial projects, and the Zairianization of foreign companies. Most of the large projects failed; for instance the 250,000 ton/year SOSIDER steel mill no longer produces anything. About 2,000 foreign-owned companies were seized in November 1973, allocated to Zairians (including the President), and later nationalized; when the bulk of the companies began to fail, most were retroceded (partially) to the original owners after November 1975.

Over time the government became increasingly corrupt, referred to variously as a kleptocracy (Korner in Tshishimbi. p.98) and patrimonialist (Willame in Tshishimbi, p.98). One tempting target was the mineral sector; in 1982-3 an estimated $100m of the foreign exchange receipts of the *Société Zairoise pour la Commercialisation des Minérais* (SOZACOM) was diverted to well-connected politicians (Leslie, p.98). Another source of funds was the Bank of Zaire; Leslie (p.72) claims that bank records show that Mobutu's family appropriated about $71m in 1977. The giant mining company *Union Minière du Haut Katanga* was nationalized and became *Gécamines*. In 1974 and 1975 it paid inordinate amounts to a

Table 1: *Chronology of Events in Zaire, 1960-present.*

State-building		
1960	30 June	Independence. President: Joseph Kasavubu; PM: Patrice Lumumba.
	5 July	Mutiny by 24,000-strong *force publique* (policy and army)
	Sept.	Col. Mobutu, head of army, suspends political institutions.
1961	Feb.	Mobutu reinstates Kasavubu as Prewident.
1060-		Moise Tshombé declares independence of Katanga (Shaba) province. Flees to Europe, June 1963.
1964		Tshombé returns, appointed PM
1965	24 Nov.	General Mobutu siezes power with US backing.
1966		Single party, *Mouvement Populaire de la Révolution (MPR)* created.
***Authenticité* and nationalization**		
1970		Mobutu, sole candidate, elected President. Introduces program of *authenticité.*
1971	Oct.	*Manifeste de la Nsélé* introduces Zairianization, big projects, nationalization.
1973	Nov.	Most foreign-owned properties seized, transferred to nationals, later to government.
1975	Nov.	Nationalized enterprises (up to 60%) retroceded to original owners.
1977		Mobutu re-elected president.
	March	Shaban exilesin Angola invade, repulsed in the "war of 80 days."
1978	May	Second invasion by Shaban exiles, who take Kolwezi; forced out by international force, incl. France.
1984		Mobutu re-elected Prewident for another 7-year term.
1986-		UNITA gets covert assistance via Zaire; continues in subsequent years.
Non-Consensual Transition		
1989-		Opposition demonstrations, continue to early 1990; violently suppressed.
1990	24 April	Mobutu proposes move to multiparty state, the "third republic."
	May	Riot on Lubumbashi campus, 10++ dead. Belgium freezes aid, 700 Belgians expelled.
1991	7 Aug.	National Conference, with 2,850 delegates from more than 200 parties. Opposition parties form *Union Sacrée*.
	23-26 Sept.	Unpaid soldiers loot Kinshasa & elsewhere. 1,400 enterprises hit, $700 million in damage.
Economic Collapse		
1992	Jan.	PM suspends National Conference. Riots. EC suspends most aid.
	5 April	National Conference resumes, declares itself sovereign.
	15 Aug.	Etienne Tshisekedi elected PM by National Conference, dismissed by Mobutu Dec. 1.
	Oct.	Ethnic violence in Shaba; in late 1993, 100,000 Luba send back to Kasai, many dead.
	1 Dec	5 million zaire notes introduced; demonetized by PM the next day.
	3 Dec	Conference installs *Haut Conseil de la République*; (HCR) Mobutu suspends on Dec. 11.
	20-22 Dec.	Unpaid soldiers riot, loot in Kisangani, Goma, Kolwezi.
1993	28 Jan	Soldiers refuse 5 million zaire notes; riots, looting in Kinshasa, 65++ dead.
	Mar.-	Hunde & Nyanga of N. Kivu in conflicts with local Tutsi & Hutu; by August 6,000 dead, 150,000 displaced.
		Country has 2 governments, 2 constitutions, 2 parliaments
	Oct.	*HCR-Parlement de la Transition* installed; convenes Jan. 1994 but fails to agree on PM.
	Dec.	Governor of Shaba declares autonomy of Katanga; arrested, suspended for 3 months.
1994	April	HCR-PT agrees on 15-month transitional period, with constitutional referendum and elections.
	July	Refugee influx from Rwanda to Goma., after Rwanda strife in April; refugee camps for Rwandan Hutus established in August..
1995	May	Electoral law adopted
	July, Aug	Anti-gov. demonstrations in Kinshasa.
	Aug.	Government initiates forcible repatriation of Rwandan refugees; UNHCR speeds its own evacuations.
1996	April	Elections announced for May 1997, constitutional referendum for Dec. 1996; neither were held.
	May	Gov. troops and Hutu militia target Tutsis of N. Kivu.
Mobutu falls and Kabila rises		
	Sept/Oct.	Tutsis, under Kabila, rebel.
	15-19 Nov.	Half-million Hutus return to Rwanda after rebels force Interahamwe militia out of Muganga camp.
1997	16 May	Mobuto flees, gives up power, as Kabila/ADF sweep into Kinshasa.
	September	Mutiny in Kinshasa suppressed; mutinies in Matadi, Boma put down in January 1998.
	December	Violence flares up in Kivu, pitting Rwandan Hutu and Mai-Mai rebels against government, Tutsis.
1998	January 7	Cabinet reshuffle
	June 30	Congolese franc introduced, at rate of 1CF per 100,000 new Zaires.

Belgian company for technical services, much of which is believed to have gone into private bank accounts (Dinavo, p.87). Over time *Gécamines* declined because too little attention was paid to re-investment and maintenance, and too much of the foreign exchange and other earnings siphoned away. Journalist Steve Askin testified before a US Senate subcommittee in 1993 that 20% of the government operating budget, 30% of export revenue and 50% of the government capital budget was "misdirected" (Askin 1993).

Shaban exiles in Angola invaded the province in March 1977 and were repulsed. They invaded again in May 1978; in this well-organized incursion they captured Kolwezi and were only pushed back with the help of an international force, including French troops. From 1986 onwards the Mobutu regime helped provide covert assistance to the UNITA rebels in Angola.

In late 1989 and early 1990 opposition demonstrations in Kinshasa were violently suppressed. In April 1990 President Mobutu announced that a multi-party political system would be allowed, and that this would mark the beginning of the "third republic." Instead it saw the beginning of a period of "non-consensual transition" as the ability of the government to run the country rapidly diminished and the economy collapsed.

Among the more important events was a riot on the university campus in Lubumbashi in May 1990. At least 10 students were killed; some observers put the number at a hundred or more (Williams p.31). When the government refused to investigate the incident, Belgium (easily the largest aid donor) froze its aid to Zaire.

A constitutional conference (the "National Conference") was convened in August 1991, with 2,850 delegates, including representatives from over 200 political parties. The opposition parties formed a loose umbrella organization, the *Union Sacrée*, but tension rose between them and the Mobutu regime.

In late September soldiers went on the rampage in Kinshasa, and then in other cities, ostensibly because they had not been paid their salaries and had not received salary increases. They were joined by civilian mobs. "Scores" of people were killed (EIU, p.4). An estimated 1,400 enterprises were hit, and the damage has been put at about $700m (EIU, p.4; IMF p.22: $900m). The government responded by promptly paying the soldiers, and hiring about 50,000 more civil servants, in an attempt to buy peace.

When it also suspended the National Conference in January 1992, the ensuing riots left 12 dead. The European Community suspended most if its aid. The National Conference reconvened in April, declared itself sovereign, and elected Etienne Tshisekedi Prime Minister in August. On December 3 it installed the 453-member *Haut Conseil de la République (HCR)*, which was suspended by President Mobutu on December 11. The constitutional confusion lasted for about a year, when the President and the HCR agreed in October 1993 to create the 780-member *Haut Conseil de la République-Parlement de la Transition (HCR-PT)* which convened in January 1994 and in April 1994 agreed on a 15-month transitional period, to be followed by a constitutional referendum and elections. An electoral law was adopted in May 1995 and elections announced for May 1997, but were not held. Between 1990 and 1997 there were 13 changes of Prime Minister.

The political confusion in Kinshasa was accompanied by growing civil disorder elsewhere in Zaire. Unpaid soldiers rioted and looted in Kisangani, Goma and Kolwesi in December 1992. Serious riots in Kinshasa in January 1993 left at least 65 dead, including the French ambassador (Washington Post, May 17, 1997; some put the toll as high as 1,000), as soldiers refused to accept payment in the form of the 5 million Zaire notes which had been issued the previous month. Ethnic violence in North Kivu province broke out in March, between the Hunde and Nyanga on the one hand and the Tutsi and Hutu on the other; by August an estimated 6,000 people had died and 150,000 were displaced. Starting in October 1992 there was ethnic tension in Shaba province, and by late 1993 about 100,000 Luba had been packed onto trains and sent back to Kasai province; many died en route.

The strife in Rwanda spilled over into Zaire after April 1994, as Hutu refugees streamed across the border, fleeing the new Tutsi-dominated regime in Kigali. Camps were established for the Rwandan Hutus in the Goma area from August onwards. Many of the refugees were former Rwandan soldiers, some of whom had participated in the earlier genocide against the Tutsis; there is evidence that they received some training from the Zairian army, with French support. By August 1995 the welcome accorded to the refugees had worn thin, and the government initiated the forcible repatriation of Rwandan refugees; 15,000 were deported in the course of a few days. The UNHCR agreed to evacuate them by the end of 1995, but it became increasingly clear that this would not be feasible.

The spark that ignited the civil war that ended the Mobutu era was the decision by Zairian troops and Rwandan Hutu militia (the Interahamwe) to expel the Tutsis of North Kivu (the Banyamulenge). The latter group, about 100,000 strong, had lived in the area for about two centuries. They joined with Laurent Kabila - a long-term opponent of the Mobutu regime - and drew support from seasoned (Tutsi) soldiers from Rwanda and Uganda. The *Alliance of Democracy for the Liberation of Congo-Zaire (ADLC)* began to move in September 1996. They first pushed the ineffective Zairian army out of eastern Zaire; after they forced the Interahamwe out of the Muganga refugee camp, half a million Hutus walked home to Rwanda during November 15-19. They met little resistance as they took the main cities in Kasai and Shaba. This permitted them to sign lucrative contracts with foreign mining concerns, which in turn helped finance the final phase of the rebellion.[1] In May 1997 they entered Kinshasa, and President Mobutu fled on May 16.

The Alliance is a coalition whose strongest glue is disaffection with the previous regime. Thus one weak government was replaced by another one which is only slightly stronger. To hold the coalition together will be a challenge, and its durability may rest on its ability to generate economic improvement rapidly. Many of its military leaders are anglophone Tutsis from Uganda and Rwanda, who are unpopular in the country. They have continued to hound the remaining Rwandan Hutu refugees, in the hope of destroying the Interahamwe. The resulting atrocities have rapidly eroded the goodwill of donors towards the new regime. Laurent Kabila was a follower of Lumumba in the early 1960s, and presumably supported the latter's vision of a self-reliant Africa. The Economist (May 17, 1997, p.17) referred to Kabila disparagingly as "a failed Marxist revolutionary from a bygone rebellion ... the worry is that he will try to become another strongman."

The clearest statement of the economic orientation of the new government appears in the *Economic Stabilization and Recovery Program* that it presented to the Brussels meeting of the Friends of the Democratic Republic of Congo in December 1997. Under a heading "the government's economic philosophy" it is stated that one of the priority tasks is to re-build the state "while being careful not to turn it into an ineffective and clumsy octopus." The document goes on to say that the government has "therefore opted for the *social market economy* model as a means of ensuring the judicious distribution of roles among the State and other players in society: businesses, associations, NGOs and local authorities." The government sees its primary mission as relating to "regulation, macroeconomic management, equity

[1] On May 2, 1997 Tenke of Vancouver made a \$50m downpayment on a \$250m contract (which had originally been drawn up under the Mobutu regime). The Alliance finance chief, who subsequently became Minister of Finance and is now Minister of Agriculture, Mawampanga Mwana Nanga, said at the time that "it makes me more comfortable that we will win this war, and that we won't have to beg Uncle Sam for help." Tenke-Fungurume has formed a joint venture in which it holds 55% of the shares and Gécamines the remainder.

American Mineral Fields (AMF) signed a contract with the AFDL, in April 1997, to reprocess the tailings of the Kolwezi copper mine; in January 1998 the contract was canceled at the behest of Gécamines, on the grounds that the contract was awarded without going through the standard tendering process, and that AMF had not delivered on some of its commitments in earlier contracts. This case has raised questions about the reliability of deals contracted with the AFDL.

and justice, public safety and national defense, basic infrastructure, public health and primary education." Generally the government says it will not intervene where, under the principle of subsidiarity, sub-national and private groups can act more effectively.

The contracts signed with foreign mining companies indicate a recognition of the realities of the marketplace. The government has said it wishes to privatize loss-making state-owned enterprises, but neither the privatization of *Gécamines* (the main mining company) nor MIBA (the large diamond concern) are being seriously considered (Reuters, June 4, 1997). It is not clear why the government shut down

Box 1. The government's *Economic Stabilization and Recovery Program*

In preparation for the December 1997 meeting of the Friends of the Democratic Republic of Congo, the government put together an *Economic Stabilization and Recovery Program*, setting out its "macroeconomic, financial and social policy objectives" for 1998. The more immediate goal of the *Program* was "opening a dialogue" with the country's "external partners" and, more concretely, mobilizing emergency assistance.

Espousing a "social market economy" where government would confine its attentions to those activities, such as macroeconomic management and public safety, that cannot be delegated to the private sector or to local authorities, the *Program* embraces the private sector, which it sees as "the engine of growth for the Congolese economy." It also calls for tax and fiscal reform, including stricter budgetary discipline, for good governance, and for the faster development of human resources. The emergency reconstruction phase has four main components:

1. *Political stabilization.* This includes a move towards democracy, by first electing a provisional assembly both to make laws and draft a constitution, and then electing a parliament and President under the rules of the new constitution.
2. *Macroeconomic stabilization.* This component envisages GDP growth of 2.5%, an inflation rate of 12.5%, an exchange rate that is relatively stable at about Nz130,000/$, and public revenues of $700 million (equivalent to about 12% of GDP). The government insists it will improve tax collection, control spending more strictly, and reform the banking system, including the structure of prudential regulation. It also promised to introduce the Congolese franc; this was done on June 30, 1998 (Independence Day), and the new currency will be phased in over a year, at a rate of 1 franc per 100,000 new zaires.
3. *Economic Recovery.* This part of the *Program* includes:
   - the rehabilitation of infrastructure, particularly highways;
   - the revival of agriculture, particularly by improving farm access roads;
   - the improvement of the energy sector, mainly by heavy reliance on the private sector; and
   - the rebirth of mining, to be achieved by deregulation, along with private investment.
4. *Human Resources.* The government plans to begin to put resources into health and education, to improve the statistical office, to upgrade road management skills, to reform the civil service, and to demobilize 75,000 soldiers.

The financing plan is set out in Table B1, and is too ambitious to be realistic. The government plans to devote $415 million of its $700 million budget to the *Program*; both figures are unlikely to be achieved, although the $415 million includes $170 million for "motivation of key personnel," which presumably refers to salary increases for government employees. The external and private sectors are being asked to come up with $1.1 billion out of the total of $1.6 billion; in reality the pledges made by the "Friends" of the DRCongo have come to less than $150 million. Despite the lack of realism in the numbers, the *Program* does represent a break with the economic policy of the Mobutu era, and a stronger commitment to private markets than had initially been expected from a government led by Kabila.

Table B1. ***Financing for Economic and Stabilization Program for 1998-9 (in millions of dollars)***

	From budget	From external sources	From private sector & state-owned	Subtotals	Totals

			enterprises		
Political and macroeconomic stabilization					**441**
Motivation of key personnel	170	2	0	172	
Demobilization and rehabilitation	0	160	0	160	
Other	36	72	0	108	
Economic Recovery					**946**
Transport and communications	94	121	280	494	
Agriculture	45	57	0	102	
Energy	0	0	350	350	
Human Resources					**296**
Health	15	26	58	101	
Education	55	86	5	146	
Capacity building	0	49	0	49	
Total	**415**	**575**	**693**	**1,683**	
of which: needed	0	575	543	1,118	

Source: Economic Stabilization and Recovery Program (12 November 1997).

SIZARAIL, which was run by a South African/Belgian venture; this is considered by many to be a mistake, in that it sends a warning signal to foreign investors (Wrong, 1997), and has prompted South Africa to restrict the movement of goods from the DRCongo through that country. The move was especially surprising because the government has said it wants to join the Southern Africa Development Community (SADC).

As presented to the Friends of the Congo, the government's stabilization and recovery program is coherent but excessively optimistic (see Box 1). It seeks $1,118 million in foreign (including private) support, to add to $415 million in government spending and $150 million contributed by local enterprises, for a series of measures to be undertaken in 1998-99 in order to put the country back onto a growth path. The main emphasis is on improving the transport and energy infrastructure, demobilization, and capacity building. The 26 governments and international organizations that participated at the Friends of the Congo meeting pledged about $145 million, well short of the hoped-for amounts, and a clear reflection of the unease in the international community about the government's human rights record and ability to deliver strong economic management. On the other hand the Kabila government has mastered inflation, which is expected to come to just 12.5% in 1998, and GNP growth of 2.5% in 1998 is considered plausible (EIU Business-Africa, 16 February 1998).

The American firm Bechtel has proposed an ambitious medium-term plan for the development of the country (see Box 2), based early and intensive development of the country's natural resources. The report is "necessarily of a conceptual nature" and does not deal seriously with the steps which need to be taken in the immediate future.

Box 2 The Bechtel Report

On November 12, 1997 Bechtel presented a report to the government of DRCongo with a "strategy destined to facilitate the achievement of … a national reconstruction program of great scale." Entitled *An Approach to National Development*, the report gave itself the modest goal of serving "as a foundation for rallying the government, the international financial community, donor countries and foreign multinational corporations."

The Bechtel report focuses primarily on natural resources as "the basis on which economic expansion will rest." Stressing the need for private-public partnerships, identifies seven clusters of activities, "based on the grouping and simultaneous development of projects with synergistic relationships." The clusters touch on most of the main sectors, and all the main regions, of the DRCongo, and are as follows:

1. development of copper, cobalt and zinc in the southeast (Katanga);
2. mining of diamonds in the south (East and West Kasai), and the registering of the informal diamond sector in order to "legitimize" (and perhaps tax?) it;
3. investment in gold and tin mines in the east (Northern Katanga, North and South Kivu, Eastern Province);
4. the development of hydro-electric power, mainly on the lower Congo river, but also in Kivu and Eastern Province;
5. exploitation of oil in the west (Lower Congo);
6. the promotion of cash crops, especially in the center and east of the country; and
7. the development of forestry, particularly in the north of the country.

The report proposes a series of measures, particularly the development of major infrastructural projects, that it believes would help speed up the development of the seven "clusters." The hope is that as the resources are developed, they will generate revenue which can provide improved social services.

Quite apart from the self-serving nature of the report – one of Bechtel's strengths is managing large projects in such areas as roads and power stations – caution is in order about the "clusters." The report really proposes a natural-resource led version of development, where enclave mining supports the rest of the economy. Agriculture, and especially food crops, industry, services such as banking, are essentially ignored, and there is little emphasis on developing education or other human skills. Many of the large projects, however superficially attractive, need to be subjected to the rigors of a sound cost-benefit analysis.

3. D.R.CONGO AS A WAR-TORN ECONOMY

In this section we set out the features of a typical war-torn economy, and then assess the extent to which the DRCongo fits this mold. The organization of the ideas follows the structure set out in Haughton (1997).

a. GDP falls

Economic output falls in wartime. This is because the resources needed for economic growth, particularly for investment, are diverted to the war effort.

GDP per capita has certainly fallen in DRCongo, but this is part of a long process of economic decline. The data are unreliable and should be treated with caution (the World Bank does not include Zaire in its main World Development Indicators tables) but the trend is clear. According to the IMF, GDP/capita fell by 3.4% p.a. between 1965 and 1994, leaving the average resident 63% poorer in 1994 than in 1965. By 1994 per capita income stood at about $125, making Zaire one of the poorest half dozen countries in the world.

It was not always thus, as Table 2 shows. The spectacular fall in measured GDP has occurred since 1990, and coincides with the eruption of civil strife. DeHerdt and Marysse believe that these figures overstate the fall in GDP, arguing that a growing share of GDP is generated in the informal sector and so is not measured. Their revised series is compared to the IMF numbers in Figure 1, and still shows a dramatic erosion of real GDP/capita over the past thirty years. In the light of these figures it is curious that the Europa yearbook reports an increase in the number of vehicles from 1.11m in 1992 to 1.21m in 1994.

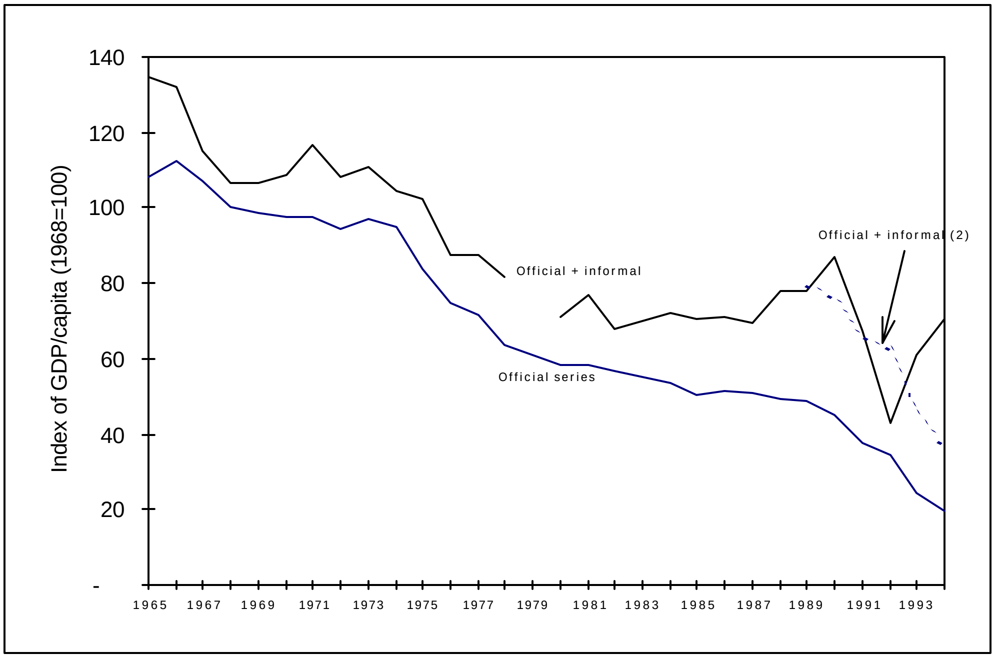


Table 2
Economic growth since 1967

Year	Growth rate of real GDP, p.a.	Comments
1967-1975	4-5%	(from Tshishimbi, p.102)
1975-1983	-1.9%	
1983-1985	4.7%	Structural adjustment
1986-1989	0.5%	Copper boom
1990-1994	-9.5%	Civil disorder
1995-1997	-1.1%	

Source: IMF 1996; EIU 1998.
Notes: Tshishimbi, p.116, gives 2.6% p.a. for 1984-1987. The population is growing at about 3.2% p.a. and now (1998) stands at about 48.5 million.

The fall of GDP in the 1990s is partly the consequence of civil strife ("near war") and partly the result of years of poor economic management. As indicated in Table 3, investment fell from 13% of GDP in 1990 to 6% in 1991 and less than 3% in 1994 and 1995, in line with a parallel fall in domestic savings. Spending on construction fell by three quarters over the same period. The riots of 1991 and 1993 reduced the productive capacity of the manufacturing sector, whose output was halved between 1989 and 1992. Output of the mining sector fell from an estimated 12% of GDP in 1987 to 4% in 1994, with the collapse of Gécamines (see below). Spending on public administration fell by two thirds between 1991 and 1994, as the government lost the ability to raise taxes and even to create seigniorage. In the words of one observer, "effective control of the economy has escaped the government since 1991."

Table 3: ***Selected Economic Indicators***

	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997
GDP:											
GDP, bn.1987 zaires	861	866	854	798	731	654	559	519	516	523*	502*
Population, million							41.2	42.6	43.9	45.4	46.6
CPI inflation (yr. to yr.)				89	1,816	4,400	1,893	23,761	542	659	73
Exchange rate(nz/$)							2.3	1,194	7,024	52,400	145,988
% of GDP from:											
agriculture	29	30	31	34	38	44	52	58	58		
mining	12	11	11	10	8	6	6	5	4		
manufacturing	9	9	9	8	7	6	6	5	6		
% GDP going to:											
consumption	79	75	75	80	81	74	80	86	87		
gov. consumption	10	13	10	12	13	22	15	8	9		
priv. investment	9	8	8	9	4	4	1	2	2		
gov. investment	5	7	5	4	3	3	1	1	1		
gov. revenue			11	10	5	3	4	3			
Production:											
Copper, '000 MT		468	443	356	236	147	48	34	34	37	50[e]
Cobalt, '000 MT		10	9	10	9	6	2	4	4	5	6
diamonds, m carats		18	18	20	17	14	15	16	22	22	16
Trade:											
Exports: volume index			10	96.3	74.5	52.8	46.4	43.4			
Exports, $m			2,203	2,131	1,631	1,288	1,144	1,272	1,451	1629	1300[e]
of which:											
Gécamines			1,390	1,265	896	536	233	176	296[e]		
diamonds			251	258	212	231	312	294	336[e]		
non-traditional			209	186	190	265	379	505	497[e]		
Imports, $m			2,005	1,836	1,524	885	668	629	870	921	875
Aid disbursements, $m			367	209	180	31	0	2			
Foreign Debt ($m)											
Outstanding					11,016	11,541	12,006	12,950	13,814		
of which official, bilateral					7,445	7,866	8,210	8,805	9,438		
of which: arrears					2,349	3,633	4,915	6,399	7,775		
Debt service due, $m					1,329	1,307	1,302	1,431	1,369		
Debt service paid, $m					132	60	12	12	22		

Sources: IMF and World Bank reports; EIU 1998. * is provision; e is estimate.

b. Population Movement

Wars force people to move, both within the country (internally displaced) and abroad (refugees). Zaire is no exception, although most of the movements resulted from conflicts among the 200+ ethnic groups and prior to the civil war itself. The key numbers are shown in Table 4, and are relatively modest when compared to the total population of over 48 million, the second largest population in Africa.[2] Indeed on balance Zaire is a host to refugees from abroad - an estimated 300,000 from Burundi, Angola, Sudan

[2] The figure is based on the IMF's population estimate of 43.9m in 1995 and a growth rate of 3.2% p.a.

and Uganda, and an estimated 173,000 from Rwanda (down from over a million in late 1994, and including many who are believed to have been massacred).

Table 4
Dead, Displaced and Refugees Due to War and Civil Strife in Zaire/Congo

	Dead	Displaced		Sources
1990-1996	10+12+65 to 100+12+1000		Riots, demonstrations, in towns	EIU
1993, March-	6,000	150,000	Hunde & Nyanga vs. Tutsi & Hutu, N. Kivu (Turner claims 300,000 displaced, 40,000 Tutsis exiled, by Apr 1996).	EIU; Turner
1992 - 1993		100,000 50,000	Luba sent back from Shaba to Kasai Others internally displaced	EIU, Europa ICRC
1994, Apr-Jy		1,000,000+	Inflow from Rwanda; 15,000 deported, Aug. 1995; >800,000 returned, esp. Nov 1996; 173,000 still in Zaire, mainly unaccounted for	EIU; Reuters (May 8, 1998)
As of June 1998		22,000 8,000 13,000 10,000	Refugees from renewed fighting in Angola Burundian refugees in S. Kivu Congolese refugees in two camps in W. Uganda Former Zairian soldiers living outside DRCongo	IRIN (July 15, 1998)

For such a poor country, DRCongo is surprisingly urbanized, with about 40% of the population living in towns and cities (up from 26% in 1966). This is not mainly a result of war or conflict, but rather of the deteriorating state of the infrastructure, which has continued to isolate agricultural areas and made agricultural activity increasingly unprofitable.

Many professionals remain in DRCongo, although there is a significant émigré community in Europe and North America.

c. Security

After the Alliance swept into power in 1997, the DRCongo did not face any serious external threats to its security; indeed the new government had the strong backing of the governments of Angola, Rwanda and Uganda. This situation has changed, as relations with Uganda, Rwanda and Burundi have soured. These countries claim that the government of the DRCongo has "failed to flush out rebels who frequently attack Uganda, Rwanda and Burundi" (IRIN 21-98). Ugandan forces have reportedly made incursions into DRCongo in pursuit of Allied Democratic Forces (ADF) rebels who are waging a guerrilla war against the government there. The Kabila government says that it prefers a negotiated solution to the tensions in the Great Lakes region, which it sees as more durable than military efforts to suppress Hutu dissent.

After a period of calm in mid 1997 (Misser 1997), tensions have resurfaced sporadically. A loose coalition of Rwandan Hutu interahamwe, Ugandan ADF fighters, soldiers of the former Zairian armed forces (FAZ), and baHunde Mai-Mai rebels are active in Kivu province, where they have terrorized the Tutsi population and are fighting the army of the DRCongo. They attacked Bukavu in December 1997, and killed about 30 people on the Butembo-Goma road in May 1998.

Apart from in Kivu, security has improved greatly since the waning days of the Mobutu era. It is now considered relatively safe to walk around Kinshasa, and the police and armed forces are no longer considered to be predators. However a serious cloud hangs over the human rights record of the Alliance. In the period during and perhaps shortly after its war against Mobutu, Alliance soldiers (led in part by officers from Rwanda and Uganda) systematically killed large numbers of Hutus, apparently in an effort to eradicate the military threat posed by the interahamwe. An investigative team sent by the United Nations arrived in August 1997, but the investigation was systematically blocked and team-members harassed; it was withdrawn in April 1998, amid strong international condemnation.

According to the Institute of Strategic Studies in London, the armed forces counted 59,100 men in 1994, of which 25,000 were in the army and 21,000 in the gendarmerie. At that time defense spending took 24% of total government spending, or about 2% of GDP. Wrong (1997) put the size of the armed forces (FAZ) at 120,000 just prior to the collapse of the Mobutu regime. Weiss (p.36, JF 97) considered just 20,000 of these to be "effective," a number which turned out in retrospect to be an overestimate. The old army is in disarray, with about 10,000 having fled the country; others have returned to civilian life, and many have been incorporated into the new army. The Alliance forces that swept to power consisted of a hastily-assembled mix of Tutsi militia, officers from Rwanda and Uganda, ex-soldiers, and Mobutu opponents of various stripes. The government now wants to demobilize and rehabilitate 75,000 soldiers, and has asked the international community for $160 million for this purpose. It does not trust the army, and would prefer a smaller, better paid and more loyal force. In the past unpaid soldiers have proved to be very destructive, rioting in 1991, 1992 and 1993, and with smaller mutinies over the past year. President Kabila is said to rely for his personal safety on a guard made up of Angolan soldiers.

d. Infrastructure

In war-torn economies, the infrastructure is typically in very poor state, damaged both by war and by a period of neglect. In the case of DRCongo the problem is one of neglect, dating back to independence in 1960.

The country is large, covering 2.3 square kilometers, or about three-quarters as large as the European Union. In 1987 it had an estimated 145,000 km of roads, of which 2,400 km were tarred. Officially the *Office des Routes* at that time was able to maintain about a quarter of the network, although one estimate suggests that only 12,000 km were truly usable (Leslie, p.103 referring to the mid 1980s); this would amount to 1 km of usable road for every 3,000 people. There is no all-weather road (or railway) connecting the eastern and western parts of the country, and the main road running north-south in the heavily populated eastern Kivu is not usable in the rainy season. Even formerly usable roads have deteriorated seriously; the EIU claims that it takes 15 days for a truck to travel the 200 kilometers between the capital Kinshasa and Matadi, the country's main port (EIU 1998, p.9).

The once-important *Voie Nationale* has almost collapsed. In 1988 this was the route used by Gécamines to transport 56% of its output (i.e. about 468,000 tonnes of copper) from the mining areas of Shaba to the Atlantic port of Matadi. The ore was transported by rail to Kundu, transferred into barges and carried downriver to near Kinshasa, where it was again transhipped onto the railroad leading to Matadi. The journey typically took 60 days (Leslie, p.103). By 1992 Gécamines only shipped 19% of its (much reduced) output via the Voie Nationale, because of rising costs, delays and uncertainty; the rest of its output was exported through the more expensive routes through Dar es Salaam (Tanzania) and South Africa. The port of Matadi was modernized in the 1980s, but has a poor security record. It handled 1.5m tonnes of cargo in 1988, and 0.8m tonnes in 1994.

The assets of state-owned Air Zaire's were auctioned off in Belgium in 1993; one plane was seized in Tel Aviv in 1992, and Mobutu's Presidential plane has been sitting in Lisbon since 1992. A number of private operators provide service within the country. The railroad system is in poor repair, and consists of three non-connecting systems; the new government closed down the southern portion (SIZARAIL), "the foreign-owned management company that revitalized Shaba's railways" (Wrong 1997).

According to the Economist Intelligence Unit, the *Office National des Postes et Télécommunications* "is near collapse with big operating deficits" (EIU, p.32). Much of the gap has been filled by the rise in cellular phones; where there were 34,000 fixed phone lines in service in 1991, three companies operated over 40,000 cellular subscribers by 1993.

The poor state of the transport network has been a major reason for the poor performance of the agricultural sector, which has difficulty getting output to markets (at home and abroad) cheaply and reliably. There is some evidence that farmers are not very responsive to increases in the price of crops, and this has been attributed to the high costs of transport.

Almost all (98%) of the electricity generated in DRCongo comes from hydro-electric power stations. Of the total installed capacity of 2,470Mw, 1,775Mw comes from the Inga complex downstream from Kinshasa. About half of the output was used, until recently, in the mining sector, although there has been little flow since 1992. Generating capacity is currently adequate, but the 18,000 km distribution network is weak, and the electric utility (SNEL) has typically had difficulty collecting payments owed to it by the government and some state-owned enterprises. Traditionally, exports of electricity to Zimbabwe have been important.

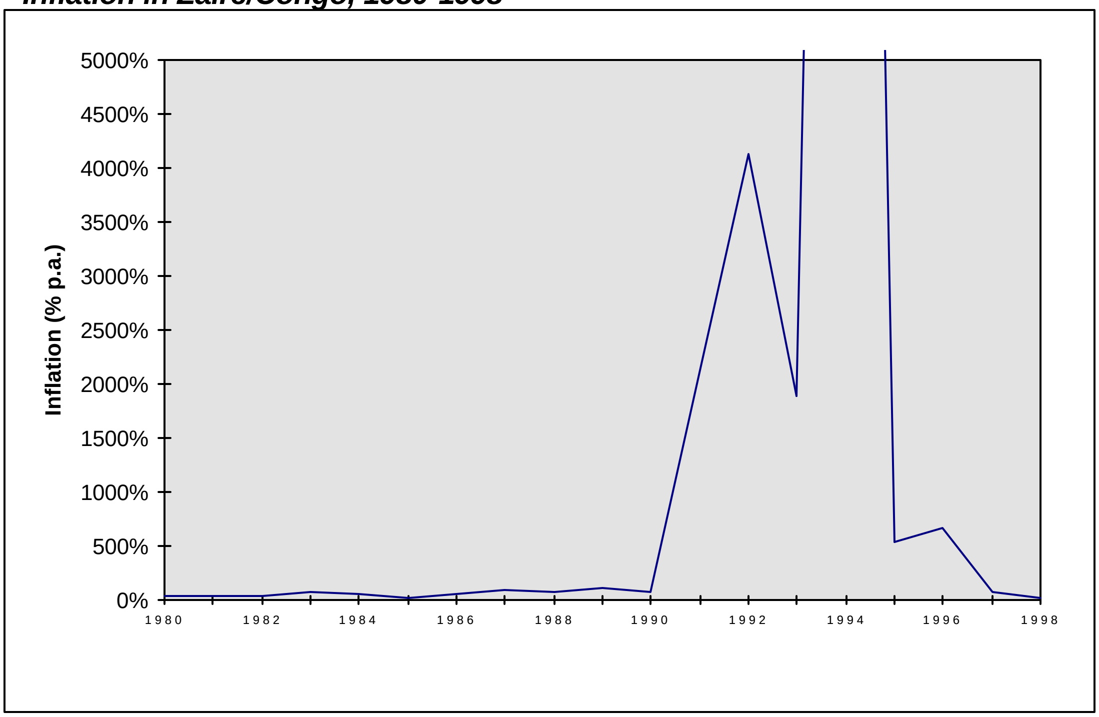
e. Macroeconomics: Prices

War-torn economies typically experience high rates of inflation, overvalued exchange rates, a shrunken and fragile banking system, and a weak central bank. Zaire fits this picture exactly, although the seeds were planted before the serious civil disorder of the 1990s.

Between October 1990 and December 1995, consumer prices in Zaire rose a total of 6.3 billion percent. This may be the longest hyperinflation in history (IMF p.32). The country has had a long history of high inflation: between 1985 and 1989 inflation averaged 69% p.a., and did not vary much from year to year. This pace held until the last quarter of 1990, at which point it accelerated rapidly, as Figure 2 shows.

There is no mystery about the immediate cause of hyperinflation. It results from printing too much new money. The growth of the money supply is graphed against inflation in Figure 3; while new money issue represented 2.5% of GDP annually during 1986-1989, it rose to a remarkable 9% of GDP annually between 1990 and 1994 (IMF, p.10).[3] With the rise in prices, the government tried to issue higher-denomination banknotes. The new 5 million zaire notes issued on December 1, 1992 were demonetized by the Prime Minister the next day; soldiers refused to accept them as salary payment in January 1993 and rampaged though Kinshasa. The new zaire was issued on October 22, 1993, at the rate of one for every 3 million (old) zaire, and was initially fixed at 3nz/$. The new notes were not accepted by residents of Kasai province, who continue to use only the old notes; inflation in the province is said to be negligible. In December 1996 the Bank of Zaire issued new 100,000 and 500,000 nz notes; these widely rejected *"prostates"* traded at a heavy discount, and further helped undermine the Mobutu regime.

Figure 2
Inflation in Zaire/Congo, 1980-1998



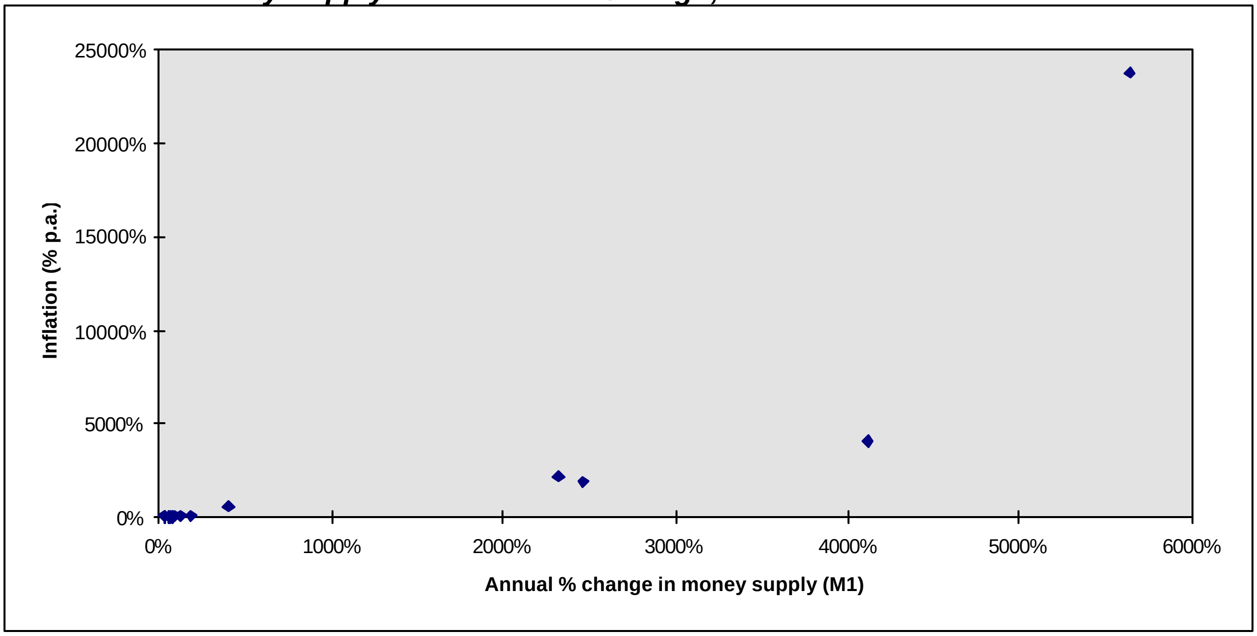
Notes: Inflation in 1994 was 23,770%. Figure for 1998 is estimated. *Source:* IMF.

As inflation accelerates, people move their assets into other forms. Where the broad money supply was equivalent to 28% of GDP in 1958, this figure had fallen to 9% by 1988-89 and to a mere 1.4% by 1993 (DRCongo 1997, p.2). By 1993 "barter and dollar transactions became popular alternatives" (EIU p.34) and there is now "widespread use of foreign currency notes" (IMF p.32). There was also a

[3] DeHerdt argues that there was also fraud in the issuance of money, with one minister arranging for unrecorded banknotes to be printed in Brazil and shipped to Zaire and put into circulation.

switch to cash, so the proportion of M2 (broad money) held in the form of currency rose from 54% in 1990 to 88% by the end of September 1995.

Figure 3
Inflation and Money Supply Growth in Zaire/Congo, 1980-1998



Source: IMF.

f. The Fiscal System

The interesting question is of course why so much new money was printed. The straightforward answer is that the government was spending far more than it raised in tax and other revenue, and arranged for new money to be printed to pay its bills. From 1965 to 1974 the government never had a budget deficit. Ambitious spending plans led to rising deficits, which reached 10.5% of GDP by 1982. Under a structural adjustment program designed by the World Bank and IMF, Zaire reduced its budget deficit to 3.6% of GDP by 1984, and was touted as the IMF's "model pupil." In the late 1980s the deficit widened somewhat, but jumped to a spectacular and completely unsustainable 23.5% of GDP by 1993.

The budgetary collapse began in 1990. After the riots at the university in Lubumbashi Belgium suspended its aid to Zaire. The Kamoto copper mine caved in, and copper shipments fell by about 10,000 tonnes per month (a reduction of about a quarter). Together these significantly reduced government revenue; after all, until the mid 1980s *Gécamines* alone had supplied between 29% and 50% of government revenue, and even in the late 1980s it earned 50-60% of the country's foreign exchange and generated a fifth of government revenue.

Unable to borrow, and unwilling to cut expenditures, the government turned to monetary financing, sparking an acceleration in inflation. The serious riots of September 1991 prompted the government to try to buy peace, by raising wage rates, paying soldiers and hiring an extra 50,000 civil servants. Again, the only way to do this was by printing money. Even this did not suffice. Unpaid soldiers rioted again in January 1993, and again the government tried to buy peace. But this became increasingly difficult, as the tax base continued to shrink, and the ability to gain seigniorage from printing more money was halved.

The contraction of the tax base was partly due to the collapse of *Gécamines*. The company's Kolwezi office was burned down in September 1991, the Likasi foundry destroyed in October, and most of the company's expatriate workers were airlifted out of the country by French and Belgian paratroopers. Partly as a consequence *Gécamines*, which had provided a fifth of government revenue in the late 1980s, made no contribution to the treasury from 1992 onwards, as its output shrunk to less than 10% of its pre-crisis level. The sharp fall in donor aid contributed to the economic shrinkage, and indirectly to the fall in tax revenues: where donors had provided $991.6m in 1991 (about 10% of GDP), this fell to $288.3m in 1992 and to negligible amounts thereafter. IDA lending was suspended in 1993 and the IMF and World Bank ceased all further activities in 1994. Government revenue, which averaged 11% of GDP from 1986-89, fell to 5% of GDP from 1990-94 and barely 2% of GDP by the end of 1994; in real terms, government revenue fell by 84% between 1989 and 1994 (IMF p.10). Real government spending eventually had to fall; spending on public administration plunged from 7.2% of GDP in 1992 to an estimated 1.3% in 1995 (IMF).

Changes in the exchange rate did not keep up with domestic inflation, so that in recent years there has typically been a gap between the official and parallel exchange rates, even after the exchange rate reforms of August 1991. At times the gap was large, as in January 1994 when the official rate stood at 37.8 nz/$ while the parallel rate was 118.5 nz/$ (IMF p.197). Hardest hit by this gap have been the two main state-owned exporters, Gécamines (copper, cobalt) and MIBA (diamonds), who were typically required to surrender a significant proportion (typically half or more) of their export earnings to the Bank of Zaire at the official exchange rate. The beneficiaries were those favored companies who received foreign exchange allocations at the official exchange rate.

Not surprisingly, the government has been unable to service its foreign debt (see Table 3 for more details). The country's Paris Club (bilateral, official) debt was rescheduled 10 times between 1976 and 1989, and its London Club (commercial) debt rescheduled 6 times between 1980 and 1989. When the country did not service its IMF borrowings, the IMF declared it ineligible for funds in 1991, and suspended its voting rights in 1994. The World Bank withdrew its resident mission in 1994. The DRCongo will need to clear its arrears to the IMF and the World Bank before these institutions will resume lending.

As in most situations of high inflation, trust in the banking system eroded rapidly. There are said to be only 8,000 bank accounts nationally (Wrong 1997). The Bank of Zaire employs 3,000, compared to 2,000 in all the private banks (Wrong). At least since 1990 the banks, including the development bank nurtured by the World Bank in the 1980s (SOFIDE), have played essentially no role in mobilizing deposits or extending credit to productive sectors of the economy outside of international trade.

g. Economic Structure

War alters the structure of economic activity, shrinking the industrial and construction sectors, while hardly affecting subsistence agriculture. More generally, war hurts those sectors where transactions costs are high, or which are asset-intensive and so particularly vulnerable (Collier).

This pattern applies to DRCongo, with the difference that it is civil strife rather than true war that has led to the outcome. The pattern is clear from Table 3: between 1990 and 1995 agricultural output rose a total of 10% while manufacturing fell by 49%, construction by 54% and mining by 72%. As a consequence the contribution of agriculture to overall GDP rose from 29% in 1987to 58% by 1995. Within the agricultural sector cash-crop production has continued to fall: coffee output fell from 107,000 tonnes in 1989 to 90,000 in 1992 and 80,000 in 1994. Rubber production dropped from 17,000 tonnes in 1989 to just 5,000 tonnes in 1992. If DeHerdt is correct that the informal sector has blossomed in the 1990s, then these numbers may understate the true fall in economic activity, but not by enough to reverse the conclusion that the period was one of chronic economic decline.

Civil strife and war simply accelerated the previous decline. For instance, cobalt production peaked in 1974[4] and copper production peaked in 1988.[5] The mining sector was particularly heavily taxed, and so has been unable to invest adequately. For instance the cost of copper production rose from 76 cents per pound in 1988 to 140 cents per pound in 1991, compared to a world price of 106 cents; this is especially surprising given the high quality of the ore (4-6% copper, compared to less than 1% in US copper mines). By 1991 *Gécamines* was paying the army in Shaba and subsidizing state-owned transport companies there; 55% of its foreign exchange earnings were surrendered (at the official exchange rate) to the Bank of Zaire;[6] and much of the revenue of its commercial arm was siphoned off abroad to finance a small coterie of government officials.

h. Social Infrastructure

The experience of war-torn economies shows that the key social indicators worsen during wartime, as life expectancy falls, infant mortality rates rise, medical services weaken, and school enrollment rates decrease. Food entitlements fall for most people, and malnutrition becomes more widespread.

Most of these features apply to Zaire, but here too the main effect of the heightened civil strife since 1990 has been to accelerate the pre-existing downward trends.

The main facts on school enrollment rates are gathered in Table 5 and show a clear picture of decline; the dismal level of social indicators is clear from the comparative data shown in Table 6. Where government devoted 15.1% of its spending to education in 1972, this proportion had fallen to 1.4% by 1990. The country's approximately 200,000 teachers have received essentially no pay from the state in recent years, and schools have been obliged to charge tuition fees. The influence of the Christian

[4] Cobalt production reached 17,000 tonnes in 1974, falling to 10,000 tonnes in 1978 and 2,200 tonnes in 1993.

[5] Copper production was as follows (in '000 tonnes)

1988	1989	1990	1991	1992	1993	1994
468.4	442.8	355.7	236.1	147.3	48.3	33.6

[6] From 1978 onwards, in theory 45% of the company's foreign exchange earnings were surrendered to the Bank of Zaire; but in addition 10% was deposited at the NY Federal Reserve Bank.

churches on education is strong, and as of the 1980s they ran 80% of primary and 60% of secondary schools. The relatively low illiteracy rate (if it is to be believed) is a legacy of the relatively high enrollment rates of the 1960s and 1970s.

Government spending on health, which took just 2.4% of its spending in 1972, fell to 0.7% by 1990. By 1992 only 23% of children had been immunized. An estimated 2 million citizens are HIV positive, or about 5% of the population. Polio and bubonic plague still occur, and there was a highly-publicized outbreak of the Ebola virus in Kikwit in 1995. An estimated 18 million people, out of the total population of just over 48 million, has been exposed to river blindness, and 5.2 million people are infected (IRIN 433 citing WHO figures). The government covers just 5% of recurrent costs in the health sector, compared with 50% in Sub-Saharan Africa (DRCongo 1997, p.6). In the light of these dreadful statistics it is surprising that life expectancy apparently rose between 1965 and 1992 (from 43 to 52, for men, from 46 to 55 for women) and that the infant mortality rate has fallen (from 141 per thousand in 1965 to 95 in 1991); some authors do not find these numbers credible.

Table 5
Social Indicators for Zaire

	1978	1990	1993
Gross enrollment rate: primary school			
Total	92	76	54
Male			60
Female			47
Gross enrollment rate: secondary school			
Total		23	17
Male			23
Female			11
Adult illiteracy (1995)			
Total			23
Male			13
Female			32

Source: Europa Yearbook 199x, p.3614, for last column; IMF for other columns.
Note: Illiteracy data from UNESCO

Table 6.
Social indicators in DRCongo in International Perspective

	'000 children not in primary school c. 1992	% population without access to health services 1992	% of gov. spending going to health 1992	Gross school enrollment rate 1993	% adults who are literate 1993	% of gov. spending going to education 1990-95	Life expectancy at birth c. 1992	GDP/capita, 1993 PPP prices 1993
Zaire	**722**	**31**	**0.8**	**39**	**75**	**1**	**52**	**300**
Kenya		6	2.7	56	76	16	56	1,400
Nicaragua	155	1	6.7	61	65		67	2,280
Nigeria		36	1.2	52	54		51	1,540
Peru	159	6	1.9	80	88		66	3,320
Sri Lanka		1	1.8	66	90	9	72	3,030
Vietnam		7	1.1	51	93		66	739

Zambia	301	2	2.2	49	76	9	49	1,110
Zimbabwe		2	3.2	70	84	19	53	2,100
All LDCs			**2.0**	**55**	**69**	**16**	**62**	**2,696**

Source: UNDP: *Human Development Report 1996.*

Zaire has typically been a net food importer, which helps explain why such a large proportion of its population is able to live in urban areas. In 1974 it imported 344,000 tonnes of cereals including 1,000 tonnes of food aid, or enough to feed about 1.5 million people. By 1990 imports had risen to 443,000 tonnes, including 107,000 tonnes of aid (mainly from the United States under the PL480 program). The ending of aid and sharp reduction in export earnings in the early 1990s led to a drop in food imports, and made the food situation much more precarious, particularly in the metropolis of Kinshasa. The World Bank claims that child malnutrition in Kinshasa doubled between 1991 and 1994 to about 9% (Europa, p.3614); this contrasts with the figures reported in DeHerdt and Marysse (p.168) which show a seasonal variation but suggest no trend during the period 1991-1995

i. Demography

In most war-torn economies the population continues to grow rapidly, although war-related deaths tend to leave a disproportionate number of widows and orphans. The relatively limited number of war-related deaths in DRCongo have meant that the demographic effects of civil strife and war have been minimal.

j. Weak Institutions

In war-time many institutions that are required for the proper functioning of the economy are seriously weakened. Civil disorder in DRCongo has certainly undermined many of the most important institutions in the country, but it must be recognized that most of these institutions were already very fragile. Even before the unrest began in 1990 this was obvious enough, with one observer noting that "the [World] Bank considers institution-building the most important objective of its operations in Zaire" (Leslie, p.91).

Many of these weaknesses have been noted above. They include:

- a tax system that collected less than 3% of GDP for the government in 1994
- no agricultural extension

- a bloated civil service, swollen by hirings in 1992 but poorly paid and equipped
- educational and health systems that have been de facto entirely privatized because they have been starved of public funds
- markets, particularly for agricultural goods, that have been stunted by the poor state of the transport infrastructure
- a banking system that does not mobilize deposits or extend loans
- a central bank that is not independent of the government, and is overstaffed
- a tradition of pervasive corruption, at all levels
- an army and police force that is poorly trained and poorly paid, and
- a very weak statistical service.

Some of these weaknesses have been addressed over the past year, but will take some time to rectify.

Some Plusses

Despite the dismal economic record, the DRCongo does have some important assets. The Kabila government recognizes the need to re-ignite economic growth and has a coherent plan (on paper) for economic stabilization and recovery. There is no serious external threat. Donor interest is high, although there has been a serious erosion of goodwill as a result of the government's unwillingness to allow a full inquiry of the massacres of Hutus, and doubts about the regime's commitment to a transition to democracy. There is a vigorous and dynamic informal economy, a moderately well-educated population, and considerable immediate potential for greater production in agriculture and natural resource extraction (minerals, timber).

The challenge is to put these substantial assets to work. In the next section we draw on our earlier study of war-torn economies to suggest a sequence of reform which we believe will speed the transition to sustainable growth.

4. FROM ECONOMIC CRISIS TO SUSTAINABLE GROWTH

In this section we suggest a sequence of measures to help move the economy of DRCongo out of its current crisis and onto a path of sustainable and rapid growth. The suggestions are rooted in an earlier analysis of economies emerging from civil war, adapted to the conditions prevailing in DRCongo. For each of the major components of policy, we show, in diagrammatic form, the "standard" recommendations for a war-torn economy, and then add some comments on the applicability of the recommendations to the current situation in DRCongo. We also note the measures that are being taken by the present government.

a. Population Movement

DRCongo is in the odd position of being a war-torn economy which harbors refugees, rather than having created a large refugee outflow (see Table 4 for details). An estimated 173,000 Rwandan Hutus remain in DRCongo, and many of them are fearful for their lives. There have been many documented cases of revenge killings and other atrocities by the Alliance forces against these refugees. The motive behind these killings is presumably to break the back of the Interahamwe (Rwandan Hutu militia) so that it will no longer pose a threat to Tutsis, or the Tutsi-dominated regime, in Rwanda.

The international community is trying to locate and repatriate the "lost" refugees, and to get to the truth about the massacres of Rwandan Hutus. Until the problem is substantially resolved, the Kabila administration cannot count on substantial inflows of foreign aid. This, in addition to the humanitarian imperative, makes resolving the refugee problem the first priority for the new government.

Some émigrés may be attracted back to the country as economic conditions improve, but there is no necessity to make a special effort to encourage them to return. The most significant skill gap may be in the mining sector; the emigration of some hundreds of expatriate managers and engineers in October 1991 seriously hampered Gécamines' ability to operate.

In DRCongo the high level of urbanization is not generally a consequence of war, but rather of the poor state of the transportation infrastructure (and the importance of the mining sector). It is not an issue which needs to be addressed directly, but improvements in the road structure are likely to give a fillip to agriculture and reduce the incentive for so much migration to the towns and cities. There are occasional exceptions however: in May 1998 large numbers of people, mainly Tutsis, moved into the towns in South Kivu in order to escape rural terror.

Table 8.1: Recovery in a War-Torn Economy: Population Movement

	First generation issues		***Second generation issues***		
	Year 1	***Year 2***	***Year 3***	***Year 4***	***Year 5***
a. Return of Refugees	Spontaneous				
b. Attract back skilled labor	Slow, hard, remittances useful so no rush				
c. Overurbanization	Ignore				

b. Security

The government has set a goal of demobilizing 75,000 soldiers, although the army continues to take back at least some of the members of the Zairian armed forces who had earlier fled. There have been signs of dissatisfaction in the armed forces (EIU 1998). This leaves the government between a rock and a hard place – without the resources to effectively demobilize, but saddled with the cost of an unreliable army. It is unlikely that donors will come up with the $160 million which the government is requesting for demobilization and rehabilitation, although it might be a very worthwhile investment.

The remaining army and police will need to be constituted into a disciplined and professional force. In part this requires training, and the United States has already offered aid for this; the lessons from El Salvador are relevant here (see Haughton 1998 for a brief summary). It is also necessary that the army be properly paid, in order to avoid the type of rampages by unpaid soldiers that the country has witnessed since 1990. This in turn calls for *more* budgetary resources for the armed forces and police than have conventionally been made available for this purpose. In DRCongo there is no peace dividend in the budget, because the country has historically spend too little on maintaining security.

Unlike most war-torn economies, DRCongo has avoided the scourge of landmines.

Table 8.2: Recovery in a War-Torn Economy: Security

	First generation issues		*Second generation issues*		
	Year 1	***Year 2***	***Year 3***	***Year 4***	***Year 5***
a. Demobilization	Help early, may cost				
b. Professionalize police, army	Start early		Continue the slow process		
c. Clear landmines	In key spots	Long slow job			

c. Infrastructure

After most civil wars, it is necessary to open and secure the main roads, ports and railroads. In DRCongo these are now open and relatively secure. There is a real need to invest heavily in improving the transportation infrastructure. There are undoubtedly plenty of small and useful projects which could be initiated and financed by donors very quickly, but major projects will need to be properly appraised; one example is the oft-proposed rail link between Ilebo and Kinshasa that would create a reliable link between the west of the country and the mineral-rich southeast. The plan of the Minister of Construction (Mbayi) to spend $2.5bn on road rehabilitation over the next three years, of which 60% is to be financed by domestic sources, is wildly unrealistic. The government's economic stabilization and recovery program would spend $494 million on infrastructure in 1998-99, or almost a third of the spending envisaged in the program; this is still unrealistic, but does reflect the strong emphasis that the government wants to put on infrastructure.

A related priority should be the development of local capacity to appraise and manage large projects. Different donors will be interested in different projects, and ideally there should be some mechanism to achieve a modicum of coherence among them.

Table 8.3: Recovery in a War-Torn Economy: Infrastructure

	First generation issues		*Second generation issues*		
	Year 1	***Year 2***	***Year 3***	***Year 4***	***Year 5***
a. Open & secure main ports, roads, rail, airports	Urgent				
b. Rehabilitate restorable structures	Not all structures should be rebuilt				
c. Long-term investment and maintenance			Plan	Build and maintain	
d. Develop appraisal and management capacity	Urgent	Maintain strong capacity			

d. Macroeconomics (Prices)

The most urgent macroeconomic in a war-torn economy task is to end the high inflation, bringing it down to no more than perhaps 20% per year. This permits firms and households to concentrate their energies on productive activities, rather than endlessly trying to find ways to minimize the costs of the inflation tax. Hyperinflation can be ended with the “stroke of a pen” by restraining the creation of money and credit. This in turn requires measures to take away the need to print more money - an issue tackled in the next subsection (“fiscal system”). It also requires an institutional framework which will resist printing too much money in the future.

The Kabila government has been very successful in restraining the creation of money, and inflation is expected to be just 12.5% in 1998, a far cry from the rate of 23,770% just four years earlier. The Central Bank appears to have been able to resist pressures to monetize much of the government deficit, and the cash deficit itself is currently small. There will be a temptation to relax the stringency in the months ahead, but this would mainly undo what has been achieved to date. The government introduced a new currency, the Congolese franc, on June 30 (Independence Day) 1998, at the rate of 1 Cf per 100,000 new zaires. The new banknotes are being printed in Sweden, Germany and Belgium, and will be phased in over a period of a year. The government’s credibility in keeping inflation low continues to grow; in late 1997 the new zaire appreciated relative to the dollar, and has remained fairly stable at about 130,000 nz/$ since then.

There are other routes to reducing inflation. The DRCongo could have opted for a currency board, as done for example by Argentina and Estonia. Under such an arrangement, domestic banknotes are only issued (at a fixed exchange rate) when convertible currency flows into the Central Bank, limiting the ability of the authorities to print too much money (Hanke and Schuler). The strength of a currency board is its predictability; the main weakness is its inflexibility. Alternatively DRCongo could have sought to join the Central African Currency Area and to use the CFA franc, which is pegged to the French franc. France was a strong supporter of the Mobutu regime, which may have made this option less attractive to the Kabila government. Whatever arrangement is chosen, it is essential that it be credible and predictable.

By the standards of other war-torn economies, Zaire had a relatively liberal exchange rate regime. Nonetheless the official exchange rate was consistently overvalued. Whatever the monetary regime chosen, the exchange rate should be unified (i.e. the same for all buyers or sellers of foreign exchange) and convertible. The government has made significant progress in this direction.

In due course the Central Bank (or an equivalent agency) will need to develop banking rules and a capacity to oversee the private banks. This might not seem like an immediate priority because the banking sector is expected to play a marginal role in lending over the next few years. On the other hand the government is requiring some new investors to make initial cash deposits in the new Banque de Commerce et de Developpment, which has a very well-connected circle of shareholders, suggesting that rules are needed sooner rather than later.

Table 8.4: Recovery in a War-Torn Economy: Macroeconomics (Prices)

	First generation issues		*Second generation issues*		
	Year 1	***Year 2***	***Year 3***	***Year 4***	***Year 5***
a. Cut inflation to below 20%	Restrain M				
b. Restrain lending by state-owned banks	Urgent	Complete the job			
c. Liberate exchange rate	Urgent				
d. Float or peg exchange rate					
e. Establish and maintain substantial e.r. convertiblity	Establish	Maintain			
f. Develop banking rules and oversight capacity			Develop	Operate	
g. Remove regulations restraining international trade					

e. Fiscal System

In a country recovering from war, it is imperative to gain enough control over the budget so that the government does not have recourse to monetary financing, and for this a system of cash budgeting needs to be instituted immediately. The government has done this, and it is a key part of the explanation for the dramatic drop in inflation.

The next problem is that government spending is currently too small relative to GDP (Boone and Gray 1997) – about 13% of GDP in 1997 – and so teachers are unpaid, soldiers are barely paid, roads not maintained, and public health largely ignored. The conclusion is inescapable: the government needs substantial amounts of revenue, and quickly. If it cannot pay its bills more successfully than the old regime then it will not survive for long.

Donors could help greatly here - by immediately injecting funds into the budget. If donors wish to earmark their contributions (for their own political reasons) this is not a serious hurdle, since funds are largely fungible. If government current spending is to return to 14% of GDP (the 1986-89 average), and domestic revenues come to 10% of GDP (which is plausible, and was the level achieved in 1997), the gap could be covered by a flow of $240 million from donors – a large but not exorbitant amount for a country of 48 million people (the second most populous in Africa). As recently as 1991 donors were providing about $900m in aid (including loans) to Zaire. Boone and Gray (1997) argue that $350m in emergency aid is needed; this would amount to little more than $7 per capita, compared with the $32 average in Sub-Saharan Africa in 1994.

The government recognizes the need to overhaul the tax system (DRCongo 1998, p.15), and to increase revenue mobilization. This has not proved easy elsewhere. For instance in Uganda tax revenues are still only about 11% of GDP, a proportion which has risen only slowly since the end of the civil war there in 1986. A higher tax take is possible in the long run - the government of Kenya collects tax and other revenue amounting to 27% of GDP.

The most promising source of tax revenue is excises, on petroleum products, alcohol and tobacco. A tax of $1 per gallon on motor fuel would yield about $250m annually, or the equivalent of about 4% of measured GDP. This should be a straightforward tax to collect, and could be made more palatable by earmarking a fraction of the proceeds for improving and maintaining the road network (and, of course, actually improving the roads as a result). In recent years Ghana has raised about 4% of GDP from its excise tax on petroleum products. A flat rate of import duty, at a rate of about 15% (as in Bolivia), would help to reduce cheating and would raise revenue from this source; to achieve this, IMF resistance to cutting average import tariff rates would have to be overcome.[7] A simpler sales tax, targeted mainly at consumer items (cars, air conditioners, televisions, etc.), would also be useful. These changes could be implemented very quickly.

Over a somewhat longer period - perhaps a year - it might make sense to set up an independent revenue authority, along the lines followed recently by Kenya, Ghana and Tanzania. In these countries the authority has re-injected professionalism into tax collection and raised the amount of revenue collected.

To reduce the pressure on the budget, public enterprises such as SNEL (the electricity monopoly) should be required to charge prices high enough to cover their costs. Some revenue may accrue from the sale of government assets such as houses and smaller companies. The government has said it will sell

[7] Cheating at Customs is found in many countries. In September 1988 the tax office (OFIDA) signed a cooperation accord with the Swiss-based *Société Générale de Surveillance* which was "designed to boost revenue collection at the expense of fraud, ultimately to no avail." (Economist Intelligence Unit, p.32).

loss-making parastatals, but this implies that it will hang on to the state-owned enterprises that make money. Most of the numerous state-owned enterprises are small – only 5 of the 56 had a turnover of more than $25 million in 1994[8] – and many barely function and could be sold off relatively quickly. Significant reflection is needed before selling the larger public enterprises, or before selling mineral concessions, in order to ensure that the resources do not go for rock-bottom prices (as occurred in Nicaragua, for instance).

Over the past several years Zaire/DRCongo has made almost no contribution towards servicing its foreign debt. The new government has set up a working group to establish the precise size of the country's foreign debt, and to determine to whom it is owed. In April 1998 the governor of the Central Bank, Jean-Claude Masangu, said that the country would "resume repayments of loan arrears to the IMF in the very near future" (Reuters), clearly part of the government's efforts to normalize relations with the Bretton Woods institutions as a prelude to borrowing more from them. While the IMF will require repayment before permitting further lending, it may be possible to persuade a donor to cover the amounts due, much as was done in the case of Vietnam in 1994.

As a practical matter the new regime will not be expected to resume debt service immediately – indeed it should refuse to do so – and lenders will have to write off most of the current debt. At a minimum, creditors should provide a grace period of five years, as was done in the case of Indonesia in 1966. It is simply not realistic for a country with exports of about $1.5bn annually to service an international debt of $14bn (for fuller debt numbers, see Table 3).

In the medium term it will be necessary to prune the size of the central administration, which was swollen artificially by almost 50% when the government hired about 50,000 extra civil servants after the riots of 1991. To help with this, and with economic management in general, the statistical services will need to be rehabilitated - a comparatively inexpensive task which some donors may be glad to finance.

[8] The five state-owned enterprises in question are Gécamines ($324 million turnover in 1994), Société Nationale des Chemins de Fer Zairois ($262 million value-added in 1994), Régie de Distribution d'Eau ($155 million turnover in 1994), Société Nationale d'Electricité (SNEL; $123 million turnover), and Régie des Voies Aériennes ($37 million turnover). Source: IMF.

Table 8.5: Recovery in a War-Torn Economy: Fiscal System

	First generation issues		*Second generation issues*		
	Year 1	***Year 2***	***Year 3***	***Year 4***	***Year 5***
a. Introduce cash budgeting	Low deficit	Phase out slowly			
b. Set up payments system	Urgent				
c. Increase revenue mobilization	Quick fixes (excises, houses)		Reform taxes and administration		
d. Suspend debt servicing and quantify it	Suspend	Quantify			
e. Renegotiate debt			Public	Private	
f. Civil service pruning and reform		Cut numbers, raise salaries			
g. Fiscal decentralization			Especially health, schooling		
h. Seek foreign aid for general budgetary purposes	Urgent, substantial		Decreasing amounts		
I. Develop data collection:	Disasters, public health				
		government payroll, revenue, debt			
			NIPA, poverty		

f. Economic Structure

Unlike most war-torn economies, the agricultural sector in DRCongo is not in immediate distress, although the important coffee sub-sector is suffering from tracheomycosis (a fungal infestation). Nor, apart from some refugees from Rwanda, is much of the population dependent on food aid. The sector is however suffering from three decades of neglect and an inadequate transport infrastructure, which cannot be rectified quickly. Perhaps the best that can be done in the short-run is to ensure that the roads are safe (from predatory police and soldiers, as well as from bandits) and that exporters are not harassed at the borders.

The DRCongo, like all the countries of Africa, needs more foreign investment. There has been no appreciable foreign direct investment in the country since at least 1989. In the short term, foreign firms may be attracted by the country's natural resources; if these firms succeed, investments in other sectors (tourism, distribution, manufacturing) may follow. Realistic expectations are important, because most investors will steer clear of DRCongo until they are convinced that the country is politically stable and economically welcoming. An early step towards attracting foreign investment is the promulgation, within the next year or two, of a clear and straightforward foreign investment law.

Table 8.6: Recovery in a War-Torn Economy: Economic Structure

	First generation issues		***Second generation issues***		
	Year 1	***Year 2***	***Year 3***	***Year 4***	***Year 5***
a. Ag: seeds and tools in hit areas and for migrants	One season				
b. Ag: Initial food aid	Relief	Phase out quickly			
c. Ind: Foreign Investment Law					
d. Ind: Simplify tax rules and incentives		Foundation for FDI			
e. Ind: Formal laws on contracts, bankruptcy					
f. Ind: Investor roadmap		Useful			
g. Ser: Encourage development of markets	Allow goods to move; keep rhetoric down				

g. Social Infrastructure

Again in contrast with most war-torn economies, DRCongo does not face an immediate public health emergency, such as the need to maintain adequate sanitation in large refugee camps. Nor is there a significant population of war-related widows and orphans requiring care and attention. On the other hand the health status of the population is very poor, government spending on health care is almost zero, and spending on education is not much higher. Both sectors need to be rehabilitated. Among the priorities are likely to be greater immunization of children, and salary payments to teachers with a view to at least restoring primary school enrollments to their near-universal level of the early 1970s.

Table 8.7: Recovery in a War-Torn Economy: Social Infrastructure

	First generation issues		*Second generation issues*		
	Year 1	***Year 2***	***Year 3***	***Year 4***	***Year 5***
a. Maintain public health in remaining camps					
b. Restore public health measures	In cities and towns		In rural areas		
c. Target primary health care; allow private sector		Focus limited resources on poor			
d. Restore education, esp. primary as resources permit		Building to universal primary ed. takes a decade			
e. Support for orphans and some widows, crippled	May be able to rely on NGOs here				

h. Property Rights

In many war-torn economies there are pervasive conflicts about property rights - to land, to housing, and to businesses. These problems are less severe in DRCongo, although there are likely to be disagreements about the ownership of assets such as the houses of the elite of the old regime, and the foreign assets of ex-President Mobutu. The government has set up the *Office des Biens Mal Acquis* (Office of Ill-Gotten Gains) which is trying to recover assets stolen by luminaries in the Mobutu regime. The Kabila government is not immune to corruption either. Prior to the cabinet reshuffle in January 1998, President Kabila told his ministers to return any property that they had requisitioned unlawfully. In late May, six of the 38 ministers were arrested on corruption charges.

Table 8.8: Recovery in a War-Torn Economy: Property Rights

	First generation issues		*Second generation issues*		
	Year 1	***Year 2***	***Year 3***	***Year 4***	***Year 5***
a. Provide land for demobilized Combatants	Helps maintain peace				
b. Thorough land reform			Difficult		
c. Asset restitution	Resolve major cases		Finish the job		
d. Privatize small companies	Straightforward				
e. Privatize large companies			Take time to do it right		

The more pressing problem in DRCongo is to reconstruct and consolidate viable institutions, such as the Central Bank, the tax collection system, and the statistical services; and to professionalize the police and army so that they do not erode the property of individuals and companies by requiring bribes and other payments.

i. Role of Donors

The DRCongo will need very substantial donor support if it is to make a rapid transition from war-torn economy to sustainable growth. The government's refusal to allow a UN team to investigate the massacres of Hutus that occurred in 1997, and growing evidence of authoritarianism on the part of President Kabila, have caused most donor goodwill to evaporate. There is however a recognition among donors that the country is large in size and population, has a key role to play in bringing peace and stability to the Great Lakes area, and needs help. Where, then, should donors start?

First, they should provide *substantial budgetary support*. At first it needs to be largely unconditional, and to be disbursed rapidly. Soldiers and teachers need to be paid, without printing money to do this, and the tax system is simply not up to the task of providing enough revenue yet.

Second, donors should *spend quickly on small projects* throughout the country - school rehabilitation, road repair, the stocking of primary health care clinics, immunization drives. Almost anything will do, provided it has a visible effect on improving people's lives. This will help consolidate support for the new regime, and help establish its economic competence. A USAID-supported project is already undertaking activities of this kind, working closely with local NGOs.

Third, the major donors should choose a lead organization (e.g. the World Bank) to put together a *short-term action plan* for economic rehabilitation, with donors committing to execute parts of the plan in a reasonably coordinated way. This was done very successfully by the World Bank in Cambodia. A committee of the major donors should meet regularly with their counterparts in government to help speed the implementation of the early efforts. Government coordination of donor efforts can be institutionalized in due course.

Donors should move quickly with *technical training*. Here is a brief sampler of suggestions:

- support for project appraisal and management, for a small group involved in working with donors (who will inevitably be involved in all major projects);
- short-term experts in the Central Bank (or currency board) to help master the inflation problem;
- training and resident experts in the Ministry of Finance, to strengthen tax collection and (in due course) expenditure control and audit;
- technical and other support for those parts of *Gécamines* that could pay off rapidly in terms of higher output.

It would also be valuable to bring key policymakers and administrators on short visits to successful countries, such as Taiwan, perhaps Vietnam, Mauritius, Uganda, El Salvador and Ghana, to get a clear sense both of what is possible on the economic front, and the sorts of policies needed to get there.

Table 8.9: Recovery in a War-Torn Economy: Role of Donors

	First generation issues		***Second generation issues***		
	Year 1	***Year 2***	***Year 3***	***Year 4***	***Year 5***
a. Budget support	Urgent, substantial		Wean off		
b. Project aid	Any projects OK	Increasing selectivity			
c. Conditions tied to support	No	Very few	Few		Yes
d. Technical training	Priority items only		Broaden scope and amount		
e. Educating policymakers	Ongoing process but may need formal attention				
f. Coordination:					
Choose lead organization	Coordinate				
Establishing guidelines	Plan #1				
Institutionalize w/in government		Government to coordinate			

5. CONCLUSION

For the thirty years following independence in 1960, Congo/Zaire was badly led and its economy mismanaged. The gradual economic decline so weakened the country that the government lost control of economic policy after 1990, and the economy shrank by 40% over the next five years, pushing per capita income levels well below those prevailing at the time of independence. In this weakened state it is not surprising that the Mobutu regime easily succumbed to the rebels led by Laurent Kabila, after a short and relatively bloodless civil war (except for the massacres of Hutus).

The problems of reconstructing the economy of Zaire are only partly those of reconstructing a war-torn economy, although the lessons from the reconstruction of other war-torn economies remain useful. More fundamentally they are the problems, common to many African countries, of arresting a long period of decline. A turnaround is possible. For ten years after the unification of Vietnam in 1975, real incomes fell. After 1986 the government rapidly liberalized the economy, got inflation under control, improved the tax system, and attracted foreign investment; the reward was a doubling of GDP since then. Ugandan GDP grew by 5.6% p.a. in the 1990s, making it one of the ten fastest-growing developing countries in the world.

At least on the economic front, the way forward for DRCongo is clear, and substantial progress has already been made. The budget has been put on a cash basis, so the government no longer has recourse to monetary financing and therefore inflation has fallen. In the short run donors will need to provide budgetary resources, but then the tax system must be reconstructed. Once macroeconomic stability has been restored, infrastructure and institutions need to be rehabilitated - roads, rail and rivers, health services and schools. The government has a coherent plan for stabilization and reconstruction, but it is also overly ambitious, is short of details on such key elements as tax reform, and expects too much (in the short-run at least) of donors and the private sector.

It is not yet clear is whether the Kabila regime will be robust enough to introduce the changes which are needed to re-ignite economic growth, as it struggles to maintain domestic security and political legitimacy. It claims to be committed to introducing a democratic system of governance, and 10,000 candidates have come forward for forthcoming elections to a constituent assembly that will draft a new constitution as well as serve as the main lawmaking body (on an interim basis). Many doubt that the regime has the will to introduce the rules of liberal democracy, but the international community will become seriously disenchanted if those efforts stall. Meanwhile donors must take the gamble, and provide more than the $150 million they have pledged so far. Their dilemma is clear: if they do not provide early support for reconstruction, then economic failure is assured, and yet no guarantee that support for the current, relatively weak, regime will achieve wonders.

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